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**BEFORE THE ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE )  
APPLICATION OF AVRA WATER )  
COOP, INC., AN ARIZONA )  
CORPORATION, FOR A )  
DETERMINATION OF THE )  
CURRENT FAIR VALUE OF ITS )  
UTILITY PROPERTY AND FOR AN )  
INCREASE IN ITS WATER RATES )  
AND CHARGES FOR UTILITY )  
SERVICES )

DOCKET NO. W-02126A-06-0234

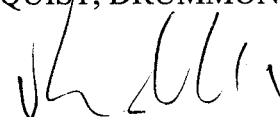
**NOTICE OF FILING OF  
SUMMARIES OF TESTIMONIES**

Avra Water Co-op, Inc, by and through undersigned counsel, hereby provides Notice of  
Filing of the Summaries of Testimony of Chris Ward and Thomas J. Bourassa, pursuant to  
Procedural Order dated July 17, 2006.

Respectfully submitted this 13<sup>th</sup> day of March 2007.

SALLQUIST, DRUMMOND & O'CONNOR, P.C.

By

  
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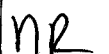
Original and ten copies of the foregoing  
filed this 13<sup>th</sup> day of March 2007,  
with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

Arizona Corporation Commission  
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**MAR 13 2007**

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2 A copy of the foregoing filed  
3 this 31<sup>st</sup> day of March, 2007, to:

4 Jeff Hatch-Miller, Chairman  
5 Arizona Corporation Commission  
6 1200 West Washington  
7 Phoenix, Arizona 85007

8 William A. Mundell, Commissioner  
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13 Legal Division  
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15 Phoenix, Arizona 85007

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2  
3 IN THE MATTER OF THE APPLICATION OF  
4 AVRA WATER CO-OP, INC., AN ARIZONA  
5 CORPORATION, FOR A DETERMINATION  
6 OF THE CURRENT FAIR VALUE OF ITS  
7 UTILITY PLANT AND PROPERTY AND FOR  
8 INCREASES IN ITS RATES AND CHARGES  
9 FOR UTILITY SERVICE.

DOCKET NO. W-02126A-06-0234

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12  
13 **TESTIMONY SUMMARY OF**  
14 **CHRIS WARD**  
15 **ON BEHALF OF AVRA WATER CO-OP**

16 **PREFILED MARCH 13, 2007**  
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1                                   **AVRA WATER CO-OP, INC.**

2                                   **Docket No.W-02126A-06-0234**

3                                   **Summary of Testimony of Chris Ward**

4           Chris Ward is the General Manager of Avra Water Co-op, Inc, a customer owned water  
5 provider located in Avra Valley near Tucson Arizona. Mr. Ward pre-filed both Direct and  
6 Rebuttal Testimonies in this Docket.

7           Mr. Ward testified that the Company has 2,529 active accounts at the end of the Test  
8 Year, serving approximately 8,000 people. He also described the typical housing within the  
9 service area and summarized the Company's utility properties.

10          Mr. Ward testified that the rate case filing was caused by the need to fund the debt  
11 repayment for the changes in the supply and distribution system to comply with new arsenic  
12 rules. The Company will drill three new wells to replace high arsenic wells, build a 300,000  
13 gallon and a 500,000 gallon storage reservoir and install approximate 24,000 feet of new pipeline  
14 to handle increased capacity and distribution from the new wells. Additionally, he explained that  
15 Avra needs to maintain a \$290,000 cash reserve to self insure the Company. Further, other  
16 operating Expenses have also increased.

17          Attached to his Direct Testimony is a chart showing the construction project  
18 schedule that is funded by WIFA and Rural Development loans and grants, showing that those  
19 projects, costing over \$8,000,000, are to be in service before the hearing date in this matter, and  
20 well before the effective date of the new rates. Mr. Ward also confirmed the Avra Board of  
21 Directors and membership have approved the inclusion of these facilities in this rate application.

22          Mr. Ward's final comment in his Direct notes that the rate design must recognize that  
23 increases in the rates to its single commercial customer, that represents 2% of the Company's

1 total revenue, should not encourage that customer to leave the system. That customer is  
2 equivalent to about 60 to 80 residential customers. This is on a system with about 15 new  
3 customers per year growth.

4 In his Rebuttal Testimony, Mr. Ward objects to Staff's reduction in Depreciation  
5 Expenses associated with the new plant additions. He also notes that the phenomenon associated  
6 with the timing of the draw down of the Commission approved loans, the payments on those new  
7 loans, and the in-service dates of that plant, was known and contemplated by the parties upon  
8 approval of the loans, and can only be resolved by acknowledging post-Test Year plant additions.  
9 He attached a schedule itemizing the Plant Additions included in Mr. Bourassa's analysis  
10 showing over \$3,000,000 actual cost of plant in service, with nearly \$6,000,000 in service by  
11 August 2007. He states that this plant is not for growth, but will serve customers on the system  
12 at Test Year end.

13 He concludes that disallowing the post Test Year Plant will be disastrous for the  
14 Company as the Company will not have sufficient cash flows to service the debt. This would  
15 require the Company to immediately file another Rate Case, at no small cost to the Staff or this  
16 customer owned-nonprofit Company.

## AVRA WATER CO-OP

Docket No. W-02126A-06-0234

### Summary of Testimony of Thomas J. Bourassa

Mr. Bourassa is a Certified Public Accountant providing various accounting and consulting services to businesses, including utilities. He has prepared or has assisted in the preparation of rate applications for a number of Arizona water and wastewater utilities. In this rate proceeding, Mr. Bourassa was responsible for preparing, and is sponsoring, Schedules A through H of the standard filing requirements for Class B water utilities, as set forth in A.A.C. R14-2-103, and for the overall development of the revenue requirement for Avra Water Co-Op ("AWC" or "Company") in this case.

Mr. Bourassa filed direct, rebuttal and rejoinder testimony, which generally addresses the following aspects of AWC's rate application:

- (1) Revenue Requirement.
- (2) Rate Base (original cost, reconstruction cost and fair value).
- (3) Revenues and Expenses (including depreciation and taxes).
- (4) Rates and Rate Design.

A summary of the key issues addressed in Mr. Bourassa's pre-filed testimony follows:

#### **I. REVENUE REQUIREMENT**

The parties' respective revenue requirements as of the rejoinder stage of this proceeding are as follows:

	<u>Revenue Req.</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
Staff - Surrebuttal	\$1,593,925	\$246,755	18.32%
Company Rejoinder	\$1,664,758	\$317,588	23.57%

Because AWC is a non-profit entity, the revenue requirement is based on an operating margin approach. The primary difference between AWC and Staff on the revenue requirement is the depreciation expense associated with post test year plant. Staff proposes a 21.05 percent operating margin while the Company proposes a 19 percent operating margin. However, while Staff proposes a higher operating margin, the Company finds the resulting revenue requirement inadequate to meets it expected needs. If post-test year plant and associated depreciation are excluded from rate base and operating expense, the Company proposes that a minimum 24 percent operating margin be used to determine the revenue requirement.

#### **II. RATE BASE**

##### **A. Overview of Rate Base**

The Company proposes its original cost rate base ("OCRB") be used as its fair value rate base ("FVRB") to determine the revenue requirement.

The parties' respective rate bases as of the rejoinder stage of this proceeding are as follows:

	<u>OCRB</u>	<u>FVRB</u>
Staff - Surrebuttal	\$ 2,417,645	\$ 2,417,645
Company - Rejoinder	\$ 6,228,341	\$ 6,228,341

#### **B. Plant Retirements**

AWC and Staff agree the adjustment to recognize the well retirements proposed by the Company in its direct filing should be reversed. The new replacement wells are not in service at this time. AWC and Staff also agree to reverse the associated accumulated depreciation related to these retirements.

#### **C. Post Test Year Plant**

AWC and Staff agree to remove the amount associated with Well 10 and Well 11, from plant-in-service and rate base. While these wells have been drilled they have not been placed into service at this time. Well 10 is projected be completed until August 2007 and Well 11 is not projected to be completed 2008.

AWC and Staff disagree on the remaining post test year plant the Company proposed in its direct filing. Staff proposes to exclude all post-test year plant. Post-test year plant includes the Rudasill Reservoir, the Rudasill 12 Inch Main, the 12 inch main from Sandario Road to Sanders Road, the 12 and 16 inch Orange Grove pipeline, and the Noel booster station. These projects are part of the AWC's Arsenic Reduction Plan and are necessary to serve existing customers as the health and safety of customers of the system is compromised without these improvements. Not only is the arsenic MCL standard exceeded in six of the seven Company wells, but the system does not meet the minimum requirements and engineering standards for source and storage.

#### **D. Contributions-in-Aid of Construction**

The Company is in agreement with Staff's to remove contributions-in-aid of construction ("CIAC") related to the funding of post-test-year plant. The Company direct filing proposal to increase CIAC was based on a Rural Development ("RD") grant, which is the last source of funding for the Company's projects. The Company has removed a substantial amount of post-test year plant in the instant case. The remaining post-test year plant the Company proposes to be included in rate base is being funded by a Water Infrastructure Financing Authority ("WIFA") loan and two RD loans. The WIFA and RD loan financing was approved in A.C.C. Decision 64008, September 4, 2001, and A.C.C. Decision 67159, August 10, 2004.



#### **E. Working Capital**

The Company is in agreement with Staff's recommended zero working capital allowance.

### **III. REVENUES AND EXPENSES**

#### **A. Overview of Income Statement**

Some of the Company's more notable adjustments to the test year in order to normalize revenues and expenses and to take into account known and measurable changes include :

- (1) Annualizing revenues to the year end level of test year customers.
- (2) Annualizing depreciation expense including post-test year plant using account specific depreciation rates based rates approved in the Company's last decision. The rates are based on Staff's typical and customary rates;
- (3) Increasing property and income taxes to reflect proposed revenues;
- (3) Inclusion of rate case expense amortized over 3 years;
- (4) Annualizing purchased power expense also reflecting a rate increase from Trico Electric.

A number of additional adjustments were made at the rebuttal and rejoinder stages based on the positions of the other parties. Notable adjustments include:

- (1) Increase to water testing expense based on Staff's proposed level of expense;
- (2) Revision to annualized depreciation expense reflecting changes to actual post-test year plant amounts.

With these various adjustments based on known and measurable changes, the Company's proposed adjusted test year level of operating expenses is equal to \$1,348,454. Staff's recommended operating expenses is lower at \$1,258,439 primarily due to the exclusion of depreciation expense from post-test-year plant.

#### **B. Deprecation Expense**

Staff's elimination of post-test year plant results in over \$88,000 less depreciation expense that is proposed by the Company. The Company estimates the full impact on depreciation expense for the projects in the Company's Arsenic Reduction Plan expected to be completed by August 2007 to be over \$105,000.

#### **C. Property Taxes**

The Company and Staff agree on the method to be used to determine property taxes, which methodology uses proposed revenues and follows the Arizona Department of Revenue property tax calculation. Both the Company and Staff utilize one year of proposed revenues and two years of adjusted test year revenue in the computation. The difference between the

Company and Staff on the recommended property tax expense level is due to the different revenue levels recommended.

#### **D. Water testing Expense**

The Company increased water testing expense in response to Staff's recommendations. The Company and Staff agree on the amount of water testing expense.

#### **IV. RATE DESIGN**

AWC proposes a three-tier inverted rate design. The 5/8 inch and 3/4 inch meter sizes have the same break-over points while the 1 inch and larger meters have the same but higher break-over points. The monthly minimums for meter sizes larger than a 5/8 X 3/4 inch meter are scaled on the flows of a 5/8 X 3/4 inch meter. The Company's rate design encourages conservation and was chosen to provide a fair and balanced increase for all meter sizes. A major concern for the Company is revenue stability. AWC believes a drastic change in the rate design will reduce the revenues approved in the instant case. The impact of a larger rate increase Company's two inch metered customer (a nursery) could result in a relocation of this customer outside the Company's service territory. Loss of this customer will significantly impact the Company's revenues. The Company's rate design also takes into consideration that the Company is located in a rural community with many customers owning livestock. The first tier break over point of 8,500 gallons for the 5/8 inch and 3/4 inch meter under the Company's design recognizes that the non-discretionary water for these customers is higher.

Staff proposes a three-tier rate design for the 5/8 inch and 3/4 inch metered customers and a two-tier design for the 1 inch and larger metered customers. The break over points for 1 inch and larger meter are different for each meter size. The Staff rate design establishes a 4,000 gallon first tier for the 5/8 inch and 3/4 inch metered customers. The Company believes this to be too low. Further, Staff's rate design impacts the larger meters far more than the 5/8 inch customers, possibly resulting in the loss of the Company's two inch metered customer. The Company believes that Staff's design will result in much less revenue stability than the Company's rate design.